



FASTFACTS



Canadian Centre for Policy Alternatives-Mb • 309-323 Portage Ave. • Winnipeg, MB • Canada R3B 2C1
ph: (204) 927-3200 • fax: (204) 927-3201 • ccpamb@policyalternatives.ca • www.policyalternatives.ca/mb

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The 2005 Provincial Budget

Manitoba's NDP government should find itself with a very attractive dilemma this budget year: what to do with a surplus. The federal government has come through on its promise to increase funding for provinces, with a new formula for equalization payments and increases in its transfers for health. According to Manitoba's second quarter report, federal transfer payments will be at least \$115-million higher than anticipated in the 2004 budget.

As a result, the province is in a much stronger financial position in this budget year than last year. In 2003/04 the province was forced to draw \$171-million from the Fiscal Stabilization Fund (FSF). This rainy day fund, financed largely by the sale of MTS, has been drawn down to a very precarious \$79-million. The province's second quarter report predicts a budgetary surplus of \$11-million this year. This surplus does not include an anticipated \$184-million from changes in the equalization formula, meaning that the potential provincial surplus from the 2004/05 budget year could be almost \$200-million dollars.

The NDP - Tax and Spend?

Critics will surely argue that the provincial surplus would be considerably larger if the NDP controlled spending. While it is true that the NDP is spending about a billion dollars more than when it first took office, an increase in the neighborhood of 15%, when inflation is taken into consideration the real increase in spending is only 7%. Furthermore, one department, health care, is driving this expansion. Health-care spending continues to escalate rapidly, both in actual terms and in comparison to budget forecasts. This year health is predicted to come in \$97-million dollars over the budget estimate.

Revenue increases have been modest. While total revenue has increased by 17% between 2000/01 and 2004/05, inflation-adjusted revenue has increased only slightly (8% over 5 years), and much of this increase has come from increased federal transfers. Due to tax cuts, the province has only increased its real own-source revenue by 2% over this period. In fact, up until this budget year, own-source revenue had actually declined in real terms. As a result of tax cuts, provincial revenue has not expanded in line with the general growth of the economy. Provincial revenue as a percentage of gross domestic product fell from 13.6 in 2000/01 to 12.4 in 2003/04.

NDP Tax Cuts - Who Benefits?

In comparison with many other provinces, Manitoba has a more progressive tax system. Looking at all of the provinces from Ontario west, a one-income family in Manitoba earning \$40,000 a year pays quite low taxes compared to every province except Alberta. As family income increases to \$60,000, families are taxed at a higher rate in Manitoba than other provinces. This is because the NDP has maintained a top marginal rate that is higher than the other provinces in the sample, with the exception of Ontario. Therefore, the average tax rate between \$40,000 and \$60,000 rises faster in Manitoba than it does elsewhere in our five-province sample.

Nonetheless, tax cuts inevitably benefit the rich more than the poor, and Manitobans are no exception. A family earning \$100,000 will pay \$1,730 less in taxes in 2004 than they did in 1999 while a family earning a rather more modest \$20,000 would only have saved \$386.

Tax reductions make it more and more difficult to



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provide the services and assistance that Manitobans need. Last year's budget committed the province to cuts in the corporate income-tax rate that will cost the province \$23-million each year after 2005. The budget also cut the middle income-tax bracket, at a cost of \$39-million a year. The cumulative costs of the personal income-tax cuts implemented since 1999 is \$220-million each year. If we include the impact of the education-support levy decreases and education property-tax credits, the provincial government is now earning \$310-million less each year than it would have if it had left tax rates unchanged from 1999.

Spending the Surplus

Increased federal transfers turned last year's deficit into a surplus, inevitably leading to a debate about what should be done with the money. Given the regressive impact of tax cuts, the NDP should put some money into the areas that have been starved for cash as a result of the province's spending on tax cuts and health care.

Post-Secondary Education

The province has done a commendable job of ensuring access to post-secondary education by freezing tuition fees. We recommend spending \$5-million to expand the tuition-fee freeze to include a moratorium on incidental fee increases and to cover all students in all programmes (including international students and professional programmes) and \$50-million on infrastructure work at its post-secondary institutions.

Poverty

We know that women, Aboriginal people, visible minorities and people with disabilities are over represented among the poor and that policies targeting these groups must be implemented. Aggressive minimum-wage increases, increases to Employment and Income Assistance and targeted training and job creation programs will help Manitoba's poor.

In the short term, the provincial government has an opportunity to take advantage of the current windfall from the federal government to begin to take some innovative steps to addressing the needs of all vulnerable communities.

Housing

The following initiatives would complement existing housing programs: 1) a \$5-million start-up for an inner-city housing endowment fund; 2) a \$5-million start-up for a Northern Housing Fund administered through the Communities and Economic Development Fund, and 3) a \$10-million allocation for 2005 to supplement the existing Affordable Housing Initiative.

Rural Manitoba

Manitoba should establish a \$2-million Manitoba Agricultural Land Trust program to serve as a province-wide, arms-length, umbrella organization for funding land acquisition for various local land trusts. A \$2-million allocation would allow for a Manitoba pilot program to launch several land trusts and construct a model umbrella organization.

Northern Manitoba

Low-income families living in Northern Manitoba are particularly disadvantaged as a result of high food prices. The Northern Food Prices Project Steering Committee recommended a number of measures to begin to address this issue. It is recommended that \$500,000 be allocated to establish a pilot green house project to test as a potential model for communities in the North.

These suggestions have been restricted by the uncertainty imposed by the nature of federal transfer revenues and the province's tendency to hobble its own revenue collection powers. Our ideas, therefore, are targeted at the most egregious problems facing Manitobans.

Ian Hudson

Ian Hudson teaches economics at the University of Manitoba.

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